

Message Text

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ORIGIN EB-08

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DRAFTED BY EB/OT/GCP:MBAAS
APPROVED BY EB/ITP:WBARRACLOUGH
COMMERCE:BSTEINBOCK
STR:SLANDE
STR:WKELLY
EA:JSARTORIOUS
AGRICULTURE:RHARPER
-----001890 022125Z /65-S

Z O 022011Z MAY 78 ZFF4
FM SECSTATE WASHDC
TO AMEMBASSY MANILA FLASH
INFO USMISSION GENEVA IMMEDIATE

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E.O. 11652: N/A

TAGS: OVIP, ETRD, RP, MTN

SUBJECT:US-PHILIPPINE MTN NEGOTIATIONS: COCONUT OIL AND
PLYWOOD

REF: A. MANILA 7107 B. STATE 110990

1. ASSUME REFTELS CROSSED. THIS MESSAGE WILL ATTEMPT TO
FURTHER CLARIFY POINTS MADE REF B IN RESPONSE TO REF A
QUESTIONS.

2. AS PREVIOUSLY INDICATED, USG REMAINS WILLING TO REDUCE
TARIFF ON COCONUT OIL TO ZERO IF PHILIPPINE CONTRIBUTION IS
ADEQUATE.

3. DISPARTIY IN COCONUT OIL OFFERS: REASON FOR TWO DIFFER-
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ENT OFFERS IS INTERVENING CHANGE FROM 1976 TO 1978 IN AD
VALOREM EQUIVALENT (AVE) OF THE SPECIFIC DUTY OF ONE CENT/
LB ON COCONUT OIL, OWING TO CHANGE IN PRICE OF COCONUT
OIL. WITH DOWNWARD MOVEMENT IN COCONUT OIL PRICE, THE DUTY
OF ONE CENT/LB AS PERCENTAGE OF PRICE HAS INCREASED. AT
TIME OF TROPICAL PRODUCTS OFFER IN 1976, AVE WAS BELOW 5
PERCENT. THUS UNDER THE FULL AUTHORITY ALLOWED IN THE TRADE

ACT TO REDUCE DUTIES UNDER 5 PERCENT TO ZERO, WE COULD OFFER REDUCTION TO ZERO. BY THE TIME OF OUR JANUARY 1978 MTN OFFER, AVE WAS ABOVE 5 PERCENT; WITH 60 PERCENT REDUCTION, THIS BROUGHT OFFER TO 2.3 PERCENT OR 0.4 CENTS/LB. HOWEVER, SINCE COCONUT OIL WAS ON INITIAL PUBLIC LIST OF ITEMS WITH AVES BELOW 5 PERCENT, WE STILL HAVE AUTHORITY TO REDUCE TO ZERO AND WOULD BE PREPARED TO USE IT DEPENDING ON PHILIPPINE RESPONSE TO OUR REQUESTS.

4. ALTHOUGH FOR OBVIOUS REASONS THE GOP IS FOCUSING ON TWO PRINCIPAL ITEMS--COCONUT OIL AND PHILIPPINE MAHOGANY PLYWOOD--WE BELIEVE POINT SHOULD BE MADE THAT OUR GENERAL OFFER COVERS MUCH MORE OF INTEREST TO GOP THAN THESE TWO ITEMS. SPECIFIC DETAILS OF HOW US OFFER AFFECTS PHILIPPINES GIVEN TO GOP DURING BILATERAL MTN CONSULTATIONS APRIL 26-27. BRIEFLY THE US OFFER INCLUDES CUTS ON PHILIPPINE PRODUCTS OF ABOUT \$340 MILLION IN 1976 TRADE. ON MANY OF THESE ITEMS, PHILIPPINES IS THE FIRST OR SECOND SUPPLIER TO US MARKET. AS A RESULT, AND IN ORDER TO MAINTAIN OFFER, WE NEED CONTRIBUTIONS FROM GOP RESPONDING TO ITEMS ON OUR REQUEST LISTS.

5. EXTENT OF PHILIPPINE CONTRIBUTIONS FOR US REDUCTIONS ON COCONUT OIL TO ZERO: US HAS MADE BALANCED OFFER AND OUR DECISION ON WHETHER TO MAINTAIN OR POSSIBLY IMPROVE OFFER WILL DEPEND ON THE BALANCE OF VARIOUS ELEMENTS IN PHILIP-
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PINE RESPONSE--INCLUDING LEVEL OF TARIFF CUTS/BINDING FOR RANGE OF SPECIFIC PRODUCTS, GOP INTENTION TO BECOME FULL MEMBER OF GATT, AND ITS WILLINGNESS TO JOIN VARIOUS CODES BEING NEGOTIATED IN MTN.

6. US REQUEST LISTS HAVE ALREADY BEEN REFINED IN COOPERATION WITH OUR MTN INDUSTRIAL, AGRICULTURAL, AND CONGRESSIONAL ADVISORS AND IN THAT SENSE COVER ONLY OUR PRIORITY ITEMS. GOP HAS NOT YET MADE FULL RESPONSE TO THESE REQUESTS (REF B), AND TO GIVE THEM FURTHER PRIORITIES AT THIS TIME WOULD IN EFFECT BE GIVING THEM A SMALLER REQUEST LIST. GENERAL PRODUCT AREAS WHERE WE ARE PARTICULARLY INTERESTED IN GOP REDUCTIONS ARE: LIVESTOCK, POULTRY AND THEIR PRODUCTS; FRUITS AND VEGETABLES; TOBACCO; OIL SEEDS AND THEIR PRODUCTS; LEATHER AND LEATHER PRODUCTS; OTHER FABRICATED METAL PRODUCTS; CONSTRUCTION, MINING, AGRICULTURAL, AND OIL FIELD MACHINERY AND EQUIPMENT; HAND TOOLS; MACHINE TOOLS, OTHER METAL WORKING EQUIPMENT AND OTHER NON-ELECTRICAL MACHINERY; ELECTRICAL MACHINERY, POWER BOILERS, AND ENGINES AND TURBINES; SCIENTIFIC AND CONTROLLING INSTRUMENTS; CONSUMER EQUIPMENT AND NON-CONSUMER ELECTRONIC EQUIPMENT; AIRPLANES AND EQUIPMENT; RATTAN POLES; PAPER;

AND ROSINS AND RESINS. OF COURSE, AS NEGOTIATIONS AND REVIEW OF PRODUCT SECTOR INTERESTS CONTINUE, THERE MAY BE MODIFICATIONS TO THIS LIST.

7. MAHOGANY PLYWOOD: IN 1976 PHILIPPINE WAS THIRD SUPPLIER WITH SHARE OF 13 PERCENT (\$24.6 MILLION) COMPARED TO 60

PERCENT KOREAN AND 25 PERCENT TAIWANESE SHARES. MAINTENANCE OF OUR OFFER ON PLYWOOD TO PHILIPPINES DEPENDS ON POSITIVE KOREAN TO OFFER AS WELL, SINCE THEY ARE FIRST SUPPLIER. YOUR ASSUMPTION REGARDING COMPENSATION FOR ORDINARY COMMERCIAL FACTORS IS CORRECT. DURING APRIL MTN BILATERALS IN MANILA, PHILIPPINE SIDE STATED THAT EVEN WITH 60 PERCENT REDUCTION IN US DUTY FROM 20 PERCENT TO 8 PERCENT. CONFIDENTIAL

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CENT, MAHOGANY PLYWOOD WOULD STILL BE PAYING HIGHER DUTY THAN SEVERAL OTHER COMPETING ITEMS, FOR WHICH US MAKING MTN OFFER FOR REDUCTION FROM 10 PERCENT TO 4 PERCENT. (IN FACT, OFFER ON MOST PLYWOOD ITEMS IS FOR REDUCTION TO 8 PERCENT DUTY WHICH ELIMINATES DISPARITY ON PLYWOODS. ITEMS WHERE OFFER IS FOR REDUCTION FROM 10 PERCENT TO 4 PERCENT ARE VENEER BOARDS WHICH ARE LESS COMPETITIVE WITH PHILIPPINE MAHOGANY PLYWOOD.) AS A RESULT, GOP ASKED FOR REDUCTION TO 4 PERCENT ON MAHOGANY PLYWOOD, TO WHICH US TEAM REPLIED THAT IT ONLY HAD LEGISLATIVE AUTHORITY FOR 60 PERCENT REDUCTION IN THE CASE OF MAHOGANY. PHILIPPINES COUNTERED THAT WE SHOULD SEEK SPECIAL LEGISLATION TO REDUCE DUTY TO 4 PERCENT. US SIDE THEN EXPLAINED OBVIOUS DIFFICULTIES WITH SUCH A COURSE. BELIEVE THIS MAY BE REASON MARCOS USED ARGUMENT HE DID. VANCE

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